

Department of Children's Services

**For the Year Ended
June 30, 2000**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Ronald E. Anderson, CPA
Audit Manager

Sam Alzoubi
Teressa Gipson
Mark Hartman
Amy Mallicote
Elizabeth Martin
Brent Rumbley, CPA
Staff Auditors

Donald Vanatta
In-Charge Auditor

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

April 30, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable George Hattaway, Commissioner
Department of Children's Services
Cordell Hull Building, Seventh Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the year ended June 30, 2000.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/dv
00/096

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Children's Services
For the Year Ended June 30, 2000

AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and the Tennessee Single Audit Report for the same period. Those areas included the Medical Assistance Program (contract with TennCare), the Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of contracts, student and social security trust funds, information systems, cash receipts, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

Children's Services Inappropriately Requested and Received Reimbursement From TennCare for Ineligible Children **

As noted in the prior three audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior audit, Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three. In addition, there were problems with billings for

hospitalized children and for drug and alcohol treatment (page 7).

Children's Services Does Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care **

As noted in the prior two audits, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for these children. According to Medicaid/TennCare regulations, TennCare

reimbursements must be based on actual costs (page 14).

Case Files Do Not Contain Adequate Documentation *

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. In 26 of 100 case files tested (26%), there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 61 to 565 days (page 23).

The Department Did Not Properly Administer and Account for the Trust Fund Accounts of Children Receiving Federal Benefits **

As noted in the prior two audits, the department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits (page 32).

The Accounting for the Social Security Administration Trust Funds Is Not Done Monthly **

As noted in the prior three audits, the accounting for the Social Security Administration trust funds is not done monthly for each child. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care (page 36).

The Case Management Systems Have Not Ensured Data Integrity and User Accountability **

As noted in the five previous audits, the Client Operation and Review System (CORS) and its replacement, the Tennessee Kids Information Delivery System (TNKIDS), which record the profiles of children in state custody and matches these with the facilities providing care, do not ensure data integrity and user accountability. A review of the TNKIDS system disclosed that all users did not enter their own information during the audit period; any user with update access can add, change, or delete client information across the state without any record of the change; and search functions could be bypassed, increasing the risk for duplicate information (page 38).

Overpayments Totaling at Least \$545,083 Were Made to Foster Parents **

As noted in the six previous audits, case managers did not update the Children's Plan Financial Information System (ChipFins) when changes in status for foster children occurred, resulting in overpayments totaling \$545,083 made to foster parents (page 44).

Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,255,660 **

As noted in the six previous audits, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents (page 48).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Children's Services
For the Year Ended June 30, 2000

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Department of Children's Services For the Year Ended June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

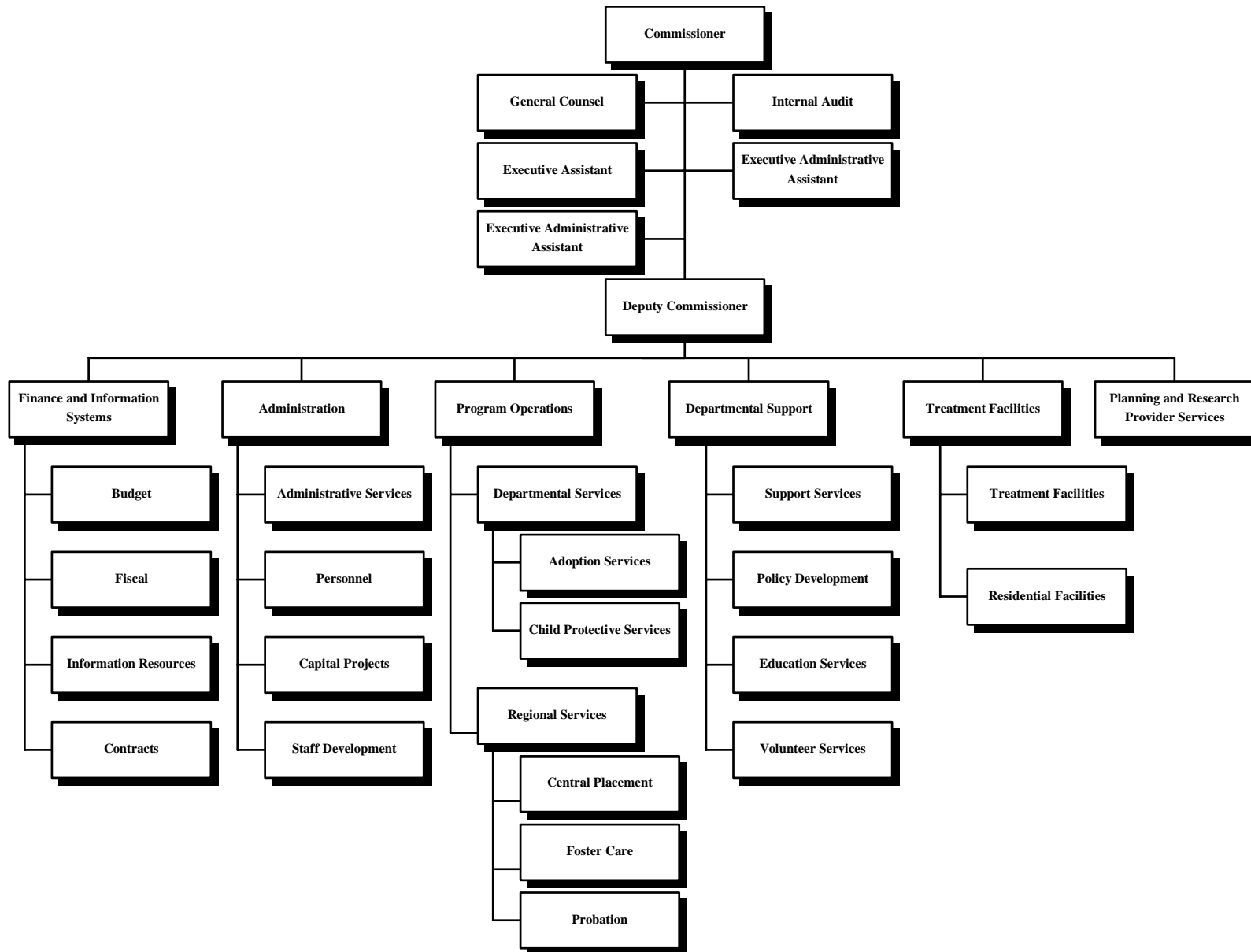
BACKGROUND

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

The mission of the Department of Children's Services is to provide services to children who are delinquent, dependent, and neglected and to their respective families, as well as to provide services to children who are at imminent risk and in need of services to prevent entry into state custody, who are in state custody pending family reunification or other permanent placement, or who otherwise may require services pursuant to state law. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

An organization chart of the department is on the following page.

Department of Children's Services



AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and to the Tennessee Single Audit Report for the same period. Those areas included the Medical Assistance Program (contract with TennCare), Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of contracts, student and social security trust funds, information systems, cash receipts, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on October 5, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning

- weak controls over disbursements;
- not having adequate property management controls;
- duplicate payments and overpayments to vendors;
- not having an exit interview policy;
- not controlling employees' access to the state's computer accounting systems; and
- inadequate internal control related to daycare placements in the Memphis region.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning

- inappropriate billings to TennCare for children not eligible for TennCare services;
- inadequate system to determine medical treatment costs billed to TennCare;
- lack of formal procedures for collecting overpayments;
- untimely processing of status changes for foster care children;
- inadequate documentation tracking the services provided, progress, and movement of the child in case files;
- prompt processing of journal vouchers;
- committing funds without approval;
- improper employer-employee relationships;
- incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records;
- accounting for the Social Security Administration trust funds not done monthly;
- inadequate data integrity and user accountability controls over the Client Operation and Review System and the Tennessee Kids Information Delivery System; and
- appropriate grants not being charged when initial transactions are recorded.

These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Children's Services is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Children's Services is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the

Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Children's Services were material to the CAFR and to the Single Audit Report: Medical Assistance Program (contract with TennCare), Social Services Block Grant (SSBG), and Foster Care/Adoption Assistance (Title IV-E).

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these four major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the applicable sections (Medical Assistance Program [Contract With TennCare] and Social Services Block Grant and Title IV-E Programs).

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2000. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 2000, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations. These reports include reportable conditions and material weaknesses resulting from this audit.

The audit of the department revealed the following findings in areas related to the CAFR:

- The department should improve control procedures for the cash receipting process.
- Since 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,255,660 are due from foster care and adoption assistance parents.

MEDICAL ASSISTANCE PROGRAM (CONTRACT WITH TENNCARE)

The Department of Children's Services is a subrecipient of the Department of Finance and Administration, Bureau of TennCare. In accordance with its agreement with TennCare, Children's Services contracts separately with various practitioners and entities (service providers) to provide Medicaid services not covered by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that are also under contract with TennCare. Children's Services pays these service providers for Medicaid services (enhanced behavioral health services) and non-Medicaid services (housing, meals, and education) directly. Children's Services is to bill TennCare for the reimbursement of only the Medicaid services. Our primary objective was to determine whether Children's Services was in compliance with the provisions of its agreement

with TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2000. Our specific objectives were to follow up on prior audit findings concerning inappropriate billings to TennCare, committing funds without approval, and an inadequate system to determine medical treatment costs billed to TennCare; and to determine whether the following types of costs were billed to TennCare:

- costs for incarcerated youth;
- costs for children not in the state's custody;
- Hometies costs;
- costs related to children on runaway status;
- costs for individuals over the age of 21;
- costs for behavioral health services provided to children under the age of three;
- unsupported treatment costs;
- costs for hospitalized children; and
- drug and alcohol treatment costs not in accordance with the department's agreement with TennCare.

Other objectives included whether the department had an approved contract in place with TennCare prior to services being provided, and whether the department has a reasonable system to determine medical treatment costs that are billed to TennCare.

We interviewed key personnel, reviewed the contract between Children's Services and TennCare, and reviewed the TennCare waiver and the State Plan. We used computer-assisted audit techniques to compare TennCare's paid claim records to records from DCS's Tennessee Kids Information Delivery System (TNKIDS) to identify inappropriate costs billed to TennCare. We also tested a nonstatistical sample of billings to TennCare to determine that the amount charged for medical treatment costs was within DCS guidelines.

The results of our interviews and testwork indicated that the Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2000, as noted in finding 1. In addition, as noted in finding 2, our review indicated that the department does not have a reasonable system to determine medical treatment costs that are billed to TennCare and associated with providing services to children in the state's care. Also, the department committed funds without an approved contract, as noted in finding 3.

Findings, Recommendations, and Management's Comments

1. Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services

Finding

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2000.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 1998, through June 30, 1999. In the letter, HHS stated:

This is a material instance of noncompliance and a material weakness. We recommend procedures be implemented to ensure federal funds are not used to pay for 1) health care costs of children who are in youth development or detention centers, not in State custody, on runaway status, or in the Hometies program, or individuals over 21 years of age, 2) behavioral health services for children under the age of three, and 3) unsupported medical treatment.

Payments for Incarcerated Youth

As noted in the prior three audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. Under federal regulations (Code of Federal Regulations, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates.

In response to the prior audit finding, management stated that it began developing a financial funding system in October 1999, which would be integrated into the TNKIDS system upon completion. Until this is completed and integrated into TNKIDS, the department would develop a process which would result in the department receiving weekly reports from all Youth Development Centers that would be used to eliminate children in locked facilities from the monthly billings to TennCare. Although this new process was implemented, using computer-assisted audit techniques, a search by the auditors of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$813,270 from July 1, 1999, through June 30, 2000, for juveniles in youth development centers and detention centers.

Children Not in State Custody

As noted in the prior audit, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management did not concur with this portion of the prior finding and attributed the problem to delays in court proceedings when children are removed from a home by Child Protective Services. Management stated that several days might pass before the department receives a written court order. In our rebuttal, we stated that only 2% of the amount questioned could have been attributed to such short delays. The majority of the cases involved months, not days, between the dates of services and the dates of custody, and for some, there was no evidence that the child was ever in custody.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that DCS had improperly billed TennCare \$3,512,975 from July 1, 1999, through June 30, 2000, for services to children who were not in the state's custody.

Hometies Program

As noted in the prior audit, Children's Services inappropriately billed and received payment from TennCare for services rendered to the Hometies program, which exists to prevent children from entering state custody. Management did not concur with this portion of the prior finding. Instead, they stated, "TennCare has appropriately paid these expenditures and the grant agreement is being modified to reflect this policy." However, the grant agreement (contract between TennCare and DCS) was not modified. TennCare contracts with two BHOs to provide behavioral health services to its recipients. The BHOs are contractually responsible to provide all services rendered to prevent children from entering state custody. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$729,117 from July 1, 1999, through June 30, 2000, for Hometies services. Because the agreement between the two departments was not amended to include Hometies services, DCS sent a request to TennCare in a memo dated June 20, 2000, to void all Hometies transactions. As of November 28, 2000, TennCare had not processed this request.

Children on Runaway Status

As noted in the prior audit, Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status.

In response to the prior audit finding, management stated that the department will terminate all billing to TennCare for youth in runaway status. Management further stated that a waiver from the Health Care Financing Administration (HCFA) that would allow DCS to bill for

these children had been discussed with TennCare. However, for the year ended June 30, 2000, a waiver for runaway children had not been granted by HCFA. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$827,010 from July 1, 1999, through June 30, 2000, for services to children on runaway status despite management's assertion that the department would not bill for this population unless a waiver was granted.

Payments for Individuals 21 and Over

As noted in the prior audit, Children's Services inappropriately billed and received payment for individuals 21 and over. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are under 21 years of age.

In response to the prior audit finding, management stated that all individuals 21 and over in its care have been certified as having severe mental retardation and have been put into the permanent custody of the state. The department attempts to transition these individuals to the Division of Mental Retardation (DMR); however, there is a waiting list for these services. Management stated that it will request language in future contracts with TennCare which would allow the department to continue serving this population until services are available at DMR. However, the current contract does not contain this language. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's TNKIDS system. The results of the match indicated that DCS had improperly billed TennCare \$206,124 from July 1, 1999, through June 30, 2000, for services to individuals who were 21 and over.

Payments for Services Provided to Children Under Three Years

As noted in the prior audit, the department has inappropriately billed and received payment from TennCare for behavioral health services provided to children under the age of three. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for children who receive Medicaid services. Management did not concur with this portion of the prior audit finding, stating that services provided to these children fall in the enhanced services category and the age of the child should not exclude this coverage. In our rebuttal, we noted that management of the Children's Services' providers stated that children of this age only receive medical treatment, not physiological treatment, and this medical treatment should be provided by the Managed Care Organizations (MCOs).

Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$1,746,512 from July 1, 1999, through June 30, 2000, for behavioral services for children under the age of three.

Unsupported Treatment

As noted in the prior audit, testwork performed during the audit of the Department of Finance and Administration, Bureau of TennCare, found that vendors were unable to provide documentation indicating the child received therapeutic treatment. Errors totaling \$2,925 were noted in 6 of 60 DCS billings tested. Office of Management and Budget Circular A-87 requires all costs to be adequately documented.

Hospitalized Children

Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The MCOs are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the provider may bill DCS for up to 21 days while the child is in the hospital, but Children's Services cannot bill TennCare for those days. Using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that DCS had improperly billed TennCare \$1,999,313 from July 1, 1999, through June 30, 2000, for children while they were in hospitals.

Alcohol and Drug Treatment

Children's Services incorrectly billed and received payment from TennCare for alcohol and drug treatment provided to children in state custody. BHOs are contractually responsible for the first \$30,000 of such expenditures per child. Neither Children's Services nor TennCare has a mechanism for identifying children that have already received \$30,000 of these services provided by the BHOs. Children's Services billed TennCare \$3,722,966 from July 1, 1999, through June 30, 2000, for these services.

Questioned costs are reported in the Department of Finance and Administration's audit report and in the TennCare findings in the Tennessee Single Audit report for the year ended June 30, 2000.

Recommendation

The Commissioner should determine why Children's Services has not developed and implemented the procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, in the Hometies program, on runaway status, placed in hospitals, the age of 21 and over, under the age of three, or for children that have not received \$30,000 of drug and alcohol services provided by the BHOs. Effective internal control requires that management have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The Commissioner should see that corrective measures are immediately implemented. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

Management's Comment

We concur in part.

Payments for Incarcerated Youth

During our analysis of the data, it became apparent that some of this questioned cost should not have been questioned. It appears that the auditors questioned the date that the child transitioned from the detention center to a residential treatment facility. The department allows the residential treatment facility to bill for the first day that the child enters the facility, but not the day the child leaves the facility. It appears that the auditors questioned the day that the child entered the facility. The placement history on TNKIDS shows the child leaving the detention center and entering the residential treatment facility on the same day.

For services that were incorrectly billed to TennCare, the department will examine its control structure and make changes as necessary to prevent future billings of this manner.

Children Not in State Custody

The department did bill TennCare for children who were not in state custody in a particular circumstance, but has corrected that problem and has refunded all of these TennCare payments back to TennCare. TennCare has not yet processed these refunds, however. This particular circumstance resulted from our misunderstanding regarding TennCare coverage related to the Non-Residential Network. This network was a pilot program in the eastern part of the state, which is now no longer offered and has been replaced with Family Support Services. Family Support Services are not funded with TennCare dollars.

As to the auditors' listing of other children who they believe were not in custody, the department submits that the majority of these children were in fact in custody. When a child is removed from his/her home in an emergency, there is to be a hearing within 72 hours. Tenn. Code Ann. §§37-1-113 and 37-1-114 make clear that a child is in legal custody when a social worker from DCS or a law enforcement officer removes the child from the home, even before a court has issued an order. Section 37-1-115 further provides that a child may be taken into custody, but then returned to the parent(s), guardian or other custodian pending the hearing. Moreover, there are circumstances when a child is taken into custody, but the court finds that continued custody is not warranted, resulting in no court action ordering custody even though the child was in fact in legal custody. See §§37-1-11 and 37-1-129(a).

This misunderstanding as to when a child is actually in custody appears to be related to limitations in and language used in the old CORS database. The old CORS system, the predecessor of TNKIDS, did not have a "physical custody" field, and the only custody date was labeled "legal custody," which is the date the court ruled on the matter. This date represents the date of the court order, not the date that the child came into the department's physical custody, which is no less "legal" than custody after the court issues an order. TNKIDS has a field for physical custody date, which should eliminate this misunderstanding, but for the billings audited, the CORS system was mainly in place. TennCare reimburses DCS for services to children in "legal" and "physical" custody as both are legal and legitimate forms of custody.

The auditors noted that in most cases, there was a delay of months or days between the dates of services and the date the child was ordered into custody, and that in some cases, there was no evidence that the child was ever in custody. The department believes that the finding that some children were never in custody is attributable to those cases where the court declines to order the child into custody even though the child was in fact in custody pending the hearing, as discussed above.

The delays of days and even months between the date of services and the date a court orders the child into custody occur routinely for legitimate reasons. Most of the courts adhere to the 72 hour requirement, but if the docket is full, the hearing may be delayed for some time. The department has no control over when the court schedules the hearing. In addition, after the hearing, several days may pass before a written order is received by the department. Moreover, courts grant continuances liberally to parents or children who wish to obtain counsel but have not yet done so. See Tenn. Code Ann. §37-1-126. Finally, to the extent that audited records revealed delays that were within the department's control, the department anticipates that this problem will be vastly reduced if not eliminated as a result of the increase in legal staff added to the department during the audit period.

Hometies Program

As stated in the finding, the department worked toward modifying the contract with TennCare to make Hometies services billable to TennCare. The contract negotiations between TennCare and DCS were finalized several months into fiscal year 2000. Once it became apparent that these services were not going to be included in the contract, the department sent a request to TennCare to void all Hometies transactions, thereby refunding all Hometies expenditures. As of February 7, 2001, this void had not been processed by TennCare. The department has completed its side of this refund transaction. The department has taken all steps to correct processing its side of the transaction. Management does not feel that any further corrective action is warranted at this time concerning the Hometies Program.

Children on Runaway Status

The department put controls in place to eliminate billing TennCare for children on runaway status on April 28, 2000. The department recognizes that before the control was implemented, some children on runaway status were inappropriately billed to TennCare. Management will continue to evaluate whether the controls in place will remedy the situation or whether additional controls are needed.

Payments for Individuals Over 21

As stated in the finding, this population of individuals has been certified as mentally retarded and has been placed into the permanent custody of the state. The department will continue to attempt transition of these individuals to the Department of Mental Health and Developmental Disabilities (DMHDD), which is the state agency that serves the mentally retarded population. Due to the limited availability of supported living placements available through DMHDD, DCS has no other alternative but to provide services for this population. These individuals cannot function independently and have no support system but the state. DCS will continue to work towards resolution by providing all available information on these individuals to

DMHDD. The department will also continue to request language in future contracts that allows for the department to bill for individuals over 21 years of age until the transition to DMHDD can take place. Until that time, the department will not bill TennCare for individuals over 21 years of age but will instead use state funding only for this population.

Payments for Services Provided to Children Under Three Years

The department still does not concur that children under three years of age cannot receive behavioral health services. Information provided by Public Consulting Group indicate that this population can and do receive behavioral services, which are funded by HCFA, in other states. DCS will examine the process available to appeal this finding with HCFA through TennCare. Until a ruling can be determined by that process, the department will make modifications to the accounting system to disallow billing children under 3 to TennCare. This population will be served by using state funding until an approval from HCFA is received.

Unsupported Treatment

The department contracts with the Department of Finance and Administration to perform monitoring on the residential treatment facilities. Whenever a problem is detected in case notation, the department requests a corrective action plan from the vendor. The department will continue to address case notation at the vendors when a problem is found either by the auditors or through the monitoring process.

Hospitalized Children

The department will discontinue billing TennCare for hospitalized children until further investigation into the matter can be performed.

Alcohol and Drug Treatment

Since TennCare does not have a mechanism to monitor and provide notification to DCS the dollar amount of alcohol and drug treatment, the department will request that the current restrictive language in the contract be amended to clarify that the BHO provides all acute inpatient services. DCS provides all residential treatment services.

Auditor's Comment

Payments for Incarcerated Youth

Although it is possible that that some of the costs questioned included payments for the first day of treatment, management did not provide any information to support specific charges that were questioned. Management should continue to investigate this matter, obtain documentation, and provide the grantor with such data during the resolution process.

Children Not in State Custody

Although it is possible that that some of the costs questioned included payments for children in protective custody and short delays in court proceedings, management did not provide any information to support specific charges that were questioned. Management should continue

to investigate this matter, obtain documentation, and provide the grantor with such data during the resolution process. The custody field in TNKIDS should help clarify the status of children covered by TennCare. However, the department should also maintain documentation to support the entries in TNKIDS.

Hometies Program

Per management of the Bureau of TennCare, the Department of Children's Services has not provided the necessary information for each individual Hometies recipient to allow the Bureau of TennCare to process the refund transaction.

Payments for Services Provided to Children Under Three Years

As previously stated, the U.S. Department of Health and Human Services' response to the prior Single Audit of the State of Tennessee confirmed that federal funds should not be used to pay for behavioral health services for children under the age of three.

2. **Because Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program**

Finding

As noted in the prior two audits covering the period July 1, 1997, through June 30, 1999, the Department of Children's Services (DCS) does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs.

In 1991-92, a cost analysis study of all the treatment facilities providing services to DCS was performed by an independent contractor. As a result of this study, a percentage rate, which supposedly represented the treatment portion of the service, was determined for each individual facility. According to management of the department, they questioned the validity of the cost study but decided to use these percentages to bill TennCare for the treatment portion. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set a rate of 50% for the treatment portion of service. However, the percentage rates being used may not accurately reflect the portion of the total charge that is related to treatment. In performing the testwork on the billing procedures, we found that DCS is not following its own arbitrary guidelines. In 6 of the 25 billings tested (20%), the department had charged TennCare a larger percentage of the total amount paid to the provider than set by DCS's guidelines. DCS could not

substantiate the rates being used. In many instances, the department was billing TennCare 70% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare. Management concurred with the prior audit finding and stated:

For almost a year, the Department of Children's Services has been collecting information from vendors providing treatment services which are billed to TennCare. This information would allow the department to develop treatment rates that would be based on time and cost studies as well as audited financial information provided by the vendors. . . . DCS staff worked closely with TennCare in reviewing the process used to collect the information and the methodology for establishing the new rates. Now that the required information has been received, TennCare will submit the methodology and results to HCFA for approval. If approved by HCFA, the methodology will become the basis for establishing treatment rates not only for existing programs, but also new programs.

According to management, DCS completed a new time and cost study in January of 2000. At that time, the department began its analysis to determine the new rates based on the completed time and cost study. On May 10, 2000, the department sent the methodology and results of the time and cost study to TennCare. Clarifications and revisions were requested by TennCare on September 6, 2000, and were made by DCS and returned to TennCare on September 7, 2000. TennCare forwarded the request to HCFA on September 22, 2000, and DCS is awaiting HCFA's approval; therefore, the department has yet to implement the study and bill TennCare based on the new rates.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program.

Recommendation

As stated in the prior audit, the Department of Children's Services needs to implement a system for billing TennCare that includes a standard rate based on the level of care being provided. The rate should fairly represent the actual treatment portion of the care allowable according to TennCare regulations.

Management's Comment

We concur. DCS in fact developed a reasonable system, and has obtained TennCare approval of the system, but must await HCFA approval before implementing the system. The Department of Children's Services (DCS) completed a Time and Cost Study as of May 10, 2000, to ensure a valid method of setting of rates for reimbursement for the cost of medical treatment and other services associated with children in the care of the department. DCS submitted the study to TennCare for approval, and TennCare approved the methodology as presented after

clarifications. Since TennCare is the cognizant agency for setting reimbursement rates with HCFA, it is responsible for presenting the methodology developed by DCS to the federal government for approval. Based on the foregoing, all of which is acknowledged in the audit finding, DCS has performed every function under its oversight associated with correcting this finding.

The department continues to wait for other agencies, both state and federal, to perform their individual functions to put this process in operation. The department's Time and Cost Study is currently in Washington, DC awaiting review by HCFA. A conversation has been held directly with the federal bureau reviewing the information submitted by TennCare, and that bureau indicates that its projected time frame for responding to the information is in excess of one year. DCS has done and continues to do everything in its power to speed this process along, but with little success as of the date of this report.

3. The department committed funds without approval

Finding

As noted in the prior audit, the Department of Children's Services (DCS) committed state and federal TennCare funds before it had a contract with the Department of Finance and Administration, Bureau of TennCare, to provide services. Management concurred with the prior audit finding and stated that they had met and would continue to meet with personnel from TennCare to ensure that a contract between the two departments would be in place at the start of the fiscal year. An interdepartmental grant agreement between the Department of Finance and Administration, Bureau of TennCare, and the Department of Children's Services for the period July 1, 1999, through June 30, 2000, was not executed until May 24, 2000. This contract also covers the period July 1, 2000, through June 30, 2001, and serves as the legal instrument governing the activities of the DCS as they relate to TennCare and specifies the scope of services, grant terms, payment terms, and other conditions. Not having an executed contract in place at the beginning of the fiscal year can lead to confusion between the parties regarding the scope of services, grant terms, payment terms, and other conditions.

Recommendation

The Department of Children's Services and the Department of Finance and Administration, Bureau of TennCare, should ensure that a contract between the two departments is in place at the start of each fiscal year before services are provided.

Management's Comment

We concur. The Department of Children's Services (DCS) does not generate the contract with TennCare. DCS negotiates with TennCare annually concerning contractual issues and these negotiations take months to complete. The departments are aware that the contract will be

completed and implemented at some date during the year. The only questionable aspect is which services will be included in the contract. However, DCS has a responsibility to the children it serves and cannot suspend providing services to these children during that time. Therefore, DCS must continue operations based on the services that were contained in the previous year's contract. If any service is determined to be unacceptable by TennCare, then DCS has to refund to TennCare payments made for those services. If TennCare does not process the refund timely, DCS has an outstanding audit issue for having inappropriately billed for services even though the department was not informed until the contract has been fully executed that this service is not billable. In order to keep this situation from occurring in the future, the department has drafted a memorandum of understanding containing language that will automatically extend the existing contract if the new contract is not ready at the time the existing one expires. This memorandum of understanding has been signed by the respective Commissioner for each of the following Departments: Children's Services, Health, and Finance and Administration.

SOCIAL SERVICES BLOCK GRANT AND TITLE IV-E PROGRAMS

The Social Services Block Grant (SSBG) and Title IV-E (Foster Care and Adoption Assistance) are federal programs administered by the United States Department of Health and Human Services. SSBG funds may be used to provide services directed toward one of the following five goals specified in the law: (1) to prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate. The object of the Foster Care program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes. The objective of the Adoption Assistance program is to facilitate the placement of hard to place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

Our audit of the SSBG and the Title IV-E programs focused primarily on the following areas:

- General Internal Control
- Allowed or Unallowed and Allowable Costs / Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Matching
- Federal Reporting

- Subrecipient Monitoring
- Schedule of Expenditures of Federal Awards

The primary audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

General Internal Control

Our primary objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees; reviewed organization charts, descriptions of duties, and responsibilities for each division, and correspondence from the grantor; and considered the overall control environment of the SSBG and the Title IV-E programs.

We did not note any significant deficiencies in management's general controls related to the SSBG and the Title IV-E programs.

Activities Allowed or Unallowed and Allowable Costs / Cost Principles

The primary objectives for the SSBG program and the Title IV-E programs were to determine

- if evidence exists that underlying records were reviewed for allowability;
- if supporting documentation was properly approved or authorized; and
- if procedures had been established to prevent duplicate payments.

Additional objectives for the Title IV-E programs were to determine

- if authorization was given by an individual who was knowledgeable of the requirements for determining activities allowed and allowable costs; and
- if a plan had been established and implemented to allocate indirect costs to the federal grant.

We interviewed key department personnel to document and evaluate the department's procedures for ensuring that costs are allowable and if procedures had been established to prevent duplicate payments. We selected a nonstatistical sample of SSBG and Title IV-E expenditures to determine if underlying records were checked to ensure that they reflect activities allowed and

allowable costs and if supporting documentation was properly approved or authorized. We also reviewed the department's indirect cost plan.

Based on our interviews and reviews, we determined that procedures existed for ensuring that costs were allowable. We also determined that procedures had been established to prevent duplicate payments and the department's indirect cost plan had been properly implemented. Based on testwork performed on a sample of SSBG and Title IV-E expenditures, the transactions appeared to be adequately supported and were allowable. In addition, except for certain Title IV-E payments made to foster care and adoption assistance parents as noted in finding 10, payments were reviewed for allowability and prior approval was obtained.

Cash Management

Our primary objectives for the SSBG program and the Title IV-E programs were to determine

- if management developed a written policy that provides for monitoring of cash management activities;
- if management developed a written policy that provides for procedures for requesting cash reimbursements as close as is administratively possible to the actual cash outlay; and
- if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We reviewed written policies and procedures related to cash management requirements. We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on our reviews and testwork, we determined that the department had written policies covering cash management activities and that the department complied with the State-Treasury cash management agreement.

Eligibility

Our primary objectives for the Title IV-E programs were to determine whether

- Title IV-E expenditures made were made on behalf of eligible children; and
- case files contained adequate documentation showing the services provided, the progress, and movement of the child.

We interviewed key department personnel to document and evaluate controls over eligibility determinations. We tested a nonstatistical sample of Title IV-E expenditures to

determine that appropriate eligibility forms were on file for the children for which the payments were made and that the children were eligible at the time the payments were made. We also reviewed a nonstatistical sample of children's case files to determine that adequate narratives, monthly recordings, or case notes were maintained to document contact with the child/family or other individuals.

Based on the testwork performed, it appears that Title IV-E expenditures were made on behalf of eligible children and the appropriate forms documenting eligibility were maintained by the department. However, adequate documentation was not maintained in case files, as noted in finding 4.

Equipment and Real Property Management

Our primary objectives for the Title IV-E programs were to follow up on the prior audit finding concerning property management controls and to determine if

- the department performed and documented a year-end inventory and whether inventory procedures were adequate;
- the purchase of equipment during the fiscal year was in accordance with applicable guidelines;
- equipment has been properly accounted for in POST; and
- subsidiary records maintained for laptop computers and printers were complete and accurate.

Key department personnel were interviewed to gain an understanding of the department's procedures for performing year-end inventories. We reviewed the instructions provided by management to perform the inventory and we reviewed inventory results. We used analytical procedures to review the department's POST listing to determine if equipment items were properly classified. We interviewed key personnel to document controls and procedures for equipment purchases and reviewed these controls and procedures for adequacy. We also reviewed the department's subsidiary records for laptop computers and portable printers and tested a nonstatistical sample of these items to determine the accuracy of the listing.

Based on our interviews, reviews, and testwork, we determined that the department performed and documented a year-end inventory and that the purchase of equipment during the fiscal year was in accordance with applicable guidelines. In addition, we determined that equipment had been properly accounted for in POST in all material respects, and subsidiary records maintained for laptop computers and printers were complete and accurate in all material respects.

Matching

Our primary objective for the Title IV-E programs was to determine if the department met matching requirements set forth by program regulations.

The department segregates costs for each category of Title IV-E expenditures in the cost allocation plan by cost center. For each category of expenditures, we traced the amounts to the appropriate State of Tennessee Accounting and Reporting System (STARS) reports, verified that the correct federal participation rate was used, and recalculated the federal participation amount.

Based upon the testwork performed, it appeared that the department was complying with matching requirements.

Period of Availability of Federal Funds

The primary objective for the SSBG program and the Title IV-E programs was to determine if the department obligated and expended federal funds within the period of availability.

We tested a nonstatistical sample of SSBG and Title IV-E expenditures and compared the date the funds were expended by the state to the period of availability requirements of the program charged to determine if the department had obligated and expended funds within the period of availability requirements for each program.

Based on our testwork, the department had obligated and expended federal funds within the period of availability.

Procurement and Suspension and Debarment

Our primary objectives for the SSBG program and the Title IV-E programs were to determine if

- there were clear assignments of authority for contracting goods and services;
- duties were properly segregated between employees responsible for contracting and accounts payable and cash disbursing; and
- procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

We interviewed key department personnel to document controls related to contracting for goods and services and to evaluate segregation of duties relating to contracting, accounts payable, and cash disbursements. In addition, we obtained contracts for services and reviewed for the clause stating that the contractor had not been suspended or debarred and for the appropriate signatures.

Based on our interviews and reviews, it appeared that there were clear assignments of authority for contracting goods and services, duties were properly segregated between employees

responsible for contracting and accounts payable and cash disbursing, and procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

Federal Reporting

The primary objectives for the SSBG program and the Title IV-E programs were to determine if

- supervisors reviewed reports to assure the accuracy and completeness of data and information included in the reports;
- federal reports were complete and submitted timely;
- written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments; and
- there was an established information system that provided for reliable processing of financial and performance information for federal awards.

We interviewed key department personnel to gain an understanding of and to document procedures for preparing federal reports related to SSBG and Title IV-E. We obtained and reviewed federal reports for completeness and timeliness of submission.

Based on our interviews and reviews, we determined that supervisors reviewed reports to assure the accuracy and completeness of data and information included in the reports, and that federal reports were complete and submitted timely. In addition, written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments, and there was an established information system that provided for reliable processing of financial and performance information for federal awards.

Subrecipient Monitoring

The primary objectives for the SSBG program and the Title IV-E programs were

- to determine if the department properly distinguished between subrecipients and vendors;
- to determine if the department monitored subrecipient activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements;
- to determine whether program subrecipients were monitored for compliance with program guidelines;

- to determine if corrective action plans were submitted as required and were approved by the department;
- to determine that the department complied with the Department of Finance and Administration policy 22, “Monitoring of Subrecipients”; and
- to determine if the department’s procedures for obtaining and reviewing subrecipients’ audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs were functioning in accordance with prescribed requirements.

The department’s procedures for monitoring subrecipient eligibility and activity, for monitoring program subrecipients at both program and fiscal levels, for distinguishing between subrecipients and vendors, and for determining risk assessments for subrecipients were reviewed and evaluated for accuracy. A nonstatistical sample of contracts was selected to determine if the subrecipient was monitored; corrective action plans, if applicable, were submitted to the department to correct deficiencies; corrective action plans were approved by the department; and that risk assessment forms were completed. We reviewed the department’s procedures for obtaining and reviewing subrecipients’ audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs.

Based on our review and testwork, the department’s program and fiscal monitoring of subrecipient activities was adequate. It appears that, in all material respects, the department was in compliance with the Department of Finance and Administration’s policy 22 and that corrective action plans were submitted as required and corrective action plans were approved by the department. The department’s procedures for obtaining and reviewing subrecipients’ audit reports were adequate.

Schedule of Expenditures of Federal Awards

Our objective was to verify that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards, and total disbursement amounts were traced to supporting documentation. Based on the testwork performed, we determined that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

Finding, Recommendation, and Management’s Comment

4. Case files do not contain adequate documentation tracking the services provided, progress, or movement of the child

Finding

As noted in the prior audit, the Department of Children’s Services (DCS) did not have adequate documentation in children’s case files showing the services provided to a child, the

progress of the child, or the movement of the child. DCS Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1 states,

This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: Narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family.

A revision was made to Policy 9.1, adding: "Case recordings and all other documentation shall be added to the case file within 30 days of case work activity. Each case shall have a case recording for each month that the case is open."

Management concurred with the prior finding and stated that historically the problem was linked to each case manager's caseload. In response to this, they hired 121 new case managers and 22 new supervisors. However, problems were again noted involving time lapses between case note recordings documenting case manager visits to the child.

Twenty-six of 100 case files tested (26%) did not contain adequate documentation tracking the services provided, progress, or movement of the child at the time the file was reviewed. In all 26 instances, there were substantial gaps in dates between the case recordings that document case manager contacts with the child. Time lapses between documented contacts ranged from 61 to 565 days. Documentation was provided after the gaps were reported to management. This documentation reduced the number of problem files to 18 of 100 (18%), with gaps ranging from 30 to 433 days. However, the subsequent case notes provided to the auditors should have been included in the case file during its initial review.

In addition, testwork at the Department of Finance and Administration, Bureau of TennCare, indicated that 17 of 60 case files tested (28%) did not contain adequate case notes or placement authorizations which document the approval for treatment and services provided to a child.

Recommendation

The Assistant Commissioner of Program Operations should ensure that case managers are making required contact with children in state custody and documenting the contacts made. Case managers should make personal visits to the child when possible. If a face-to-face visit is not possible, a phone call will be sufficient. Proper documentation, as described in DCS policies, should be prepared in a reasonable time after the visit and placed in the child's case file in a timely manner. All services provided to a child should be documented in the child's case file.

Management's Comment

We concur. Case file reviews conducted by central office staff from the Division of Program Operations documented similar findings. The standard established by the Division of Program Operations and communicated to field staff is that case documentation should never lag more than 30 days behind specific case activities. Management will continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews.

In addition to the 121 new case managers and 22 new supervisors documented in the auditor's report, the department received an additional 189 case manager and supervisor positions in fiscal year 2000/2001. The additional positions provide further verification of the legislature's recognition of staffing problems in the Division of Program Operations and it is felt that these additional positions will be another step toward improvement of casework and documentation of services for children.

The auditors also noted that case notes were provided to the auditors after the auditor's initial field visit. This circumstance was due to case notes being in different files (residential case manager files, resource case manager files, and home county case manager files). In December 2000, the final region transitioning to TNKIDS completed training. In the future, all case recordings, regardless of the individual producing that recording, will be contained in a single electronic case file. Problems of case documentation being in different files will be eliminated.

CONTRACTS

Our primary objectives in the area of contracts were to follow up on the prior audit finding concerning employer-employee relationships and to determine whether

- the department continued to enter into contracts that establish improper employer-employee relationships; and
- the department allowed contract services to be rendered before proper approvals of the contracts were obtained.

We interviewed key department personnel and reviewed terms of contracts, authorizations and dates, contract payment support, and memorandums. We also reviewed organization charts to determine the working relationships between the Department of Children's Services' employees and Community Services Agencies' employees.

Based on our testwork, except for the department's contract as noted in finding 3, the department had not allowed significant contract services to be rendered before proper approvals of the contracts were obtained. However, the department continued to enter into contracts that established improper employer-employee relationships, as disclosed in finding 5.

Finding, Recommendation, and Management's Comment

5. The department has established improper and ineffective employer-employee relationships

Finding

As noted in the prior two audits covering the period July 1, 1997, through June 30, 1999, the Department of Children's Services (DCS) has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Services Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. The CSA organizational charts at the department show that there are 178 CSA employees who report to DCS employees. Some of these CSA employees are secretaries for the department's regional administrative staff. These contracts appear to create "employer-employee" relationships between the department and these individuals. Management did not concur with the prior audit finding, citing an Attorney General's opinion that CSAs are state entities for the purpose of liability and provision of legal representation. However, that opinion did not directly address many specific legal and policy issues related to these arrangements.

The practice of allowing employees of community services agencies to report directly to Department of Children's Services officials/employees, in carrying out what can be construed as state programs, raises policy and legal issues, as well as questions of effectiveness. We still do not believe that these situations should be accepted as a matter of policy. *Tennessee Code Annotated*, Section 37-5-314, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, *Tennessee Code Annotated*, Section 37-5-315(2), states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include DCS's ability to direct and control the work of CSA employees it supervises.

As noted in the prior audit, the Child Welfare League of America, in direct collaboration with the Department of Children's Services, agreed to assess the current status of the foster care and adoption programs, to develop strategies for change, and to implement specific actions to strengthen the service delivery system. Their first report, dated April 6, 1999, contained the following findings:

- The present relationship between the DCS regional offices and the Community Services Agencies simply does not work in some regions. In others, it works only due to the personalities and commitment of the individuals involved. There is no guarantee that these relationships would continue if the current players leave either agency.

- Significant energy is consumed at DCS and the CSAs in trying to make the current arrangements work and in dealing with staff concerns about what is not working well. This energy needs to be expended in working with children and families.
- The current arrangements in which some of the CSA case managers report to DCS team leaders for a portion of their supervision creates an appearance of an employer-employee relationship. For all practical purposes, these CSA case managers function as DCS employees.

These relationships also create inherent problems for the DCS supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer, and costs of travel, supplies, and equipment used by the administrative staff.

Recommendation

The Department of Children's Services should not contract with community services agencies to establish what are, in effect, employer-employee relationships. The department should consider the Child Welfare League of America's findings and recommendations for strengthening the service delivery system. The Department of Children's Services should consult with the Office of the Attorney General concerning the legal ramifications of such employer-employee relationships between the department and the CSAs.

Management's Comment

We do not concur. This finding states that the contracts between DCS and the CSAs appear to create "employer-employee" relationships, which should not be accepted as a matter of policy. In particular, the auditors note that Tenn. Code Ann. 37-5-315(2) states that the Community Services Agency Act "shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors.

DCS has obtained two opinions from the Office of the Attorney General, and has also identified past opinions bearing upon the issues at hand. It is clear from these opinions that the CSAs are not properly characterized as ordinary private-non-profit organizations, that the State is indeed liable for actions of the CSAs while acting within the scope of their authority, and that DCS is required by law to maintain close oversight and control of the CSAs because the CSAs perform delegated functions that are inherently governmental in nature.

As DCS has previously reported, DCS requested and received in June 1997 an opinion regarding the liability of CSA employees while acting within the scope of their authority. Page 3 of the opinion provides that:

We have determined that CSAs are state entities for the purposes of liability and provision of legal representation because of: (1) the clear legislative intent to regard CSAs as state agencies or instrumentalities; and (2) because they are operated by the state government, receive appropriations of funds from the state, and serve as a “conduit through which the state acts” to carry out public functions. Tenn. Op. Atty. General No. 97-092 (citing *Hastings v. South Central Human Resource Agency*, 829 S.W.2d 679, 682 (Tenn. App. 1991)).

It is important to note that the Community Services Agency Act provides that the CSAs “shall be a political subdivision and instrumentality of the state” and that “[a]s such, it shall be deemed to be acting in all respects for the benefit of the people of the state in the performance of essential public functions, and shall be deemed to be serving a public purpose through improving and otherwise promoting the well-being of children and other citizens of the state.” Tenn. Code Ann. §37-5-304.

The Act provides explicitly that “[e]mployees of the community services agencies shall be considered ‘state employees’ for purposes of §9-8-307. Opinion No. 97-092 goes further to observe that the CSA boards are appointed by the Governor and are “state officials and thus state employees” for the purposes of governmental immunity under Tenn. Code Ann. 9-8-307(h).

DCS in 2000 requested and received another opinion from the Attorney General addressing more issues bearing on the issue at hand. Tenn. Op. Atty. Gen. No. 00-113 is attached hereto. In that opinion, the Attorney General states that “CSAs are clearly subject to the authority and control of the [DCS] Commissioner,” noting that the General Assembly statutorily empowered the Commissioner to establish the CSAs, to appoint each CSA executive director, approve all CSA policies, procedures, rules and regulations, and any other acts necessary or convenient to exercise the powers granted in the Act. Based on that control by the Commissioner, the Opinion states that DCS attorneys may provide any legal advice needed by the CSAs.

Critical to the present issue is the Attorney General’s statement that

[because a CSA is political [sic] subdivision of the state and subject to the control of the Commissioner, it is not possible for it to take a legal position adversarial to that of the DCS. Should a CSA, through its executive director, attempt to take such a position, the Commissioner has the authority to countermand that decision.

Further indicating the legitimate relatedness of DCS and the CSAs is the AG’s opinion that the office of the Attorney General and Reporter must represent the CSAs in all legal matters except where such authority is delegated to the DCS Office of General Counsel. The CSAs may not retain private legal counsel except where such an arrangement is approved by the Attorney General.

Because DCS is ultimately liable for the acts of CSA employees, as stated in the aforementioned opinions of the Attorney General, it behooves DCS to oversee the CSAs more closely than it would other vendors to whom it has not delegated inherently governmental functions. Moreover, even if the CSAs were deemed ordinary private vendors, which they are not, it is proper for State employees to closely oversee their activities because they perform delegated functions that are inherently governmental in nature. This is clear from two Attorney General opinions addressing the legality of contracts that delegate inherently governmental functions that the General Assembly has vested in state agencies.

The Attorney General opined in 1985 that in general, “[a] state may not, by contract, divest itself of the power to provide for the lives, health and property of its citizens and the preservation of order.” Tenn. Op. Atty. Gen. No. 85-286 (1985 WL 19837) (citing 81A C.J.S., States, 155 (1977); *The Boston Beer Co. v. Commonwealth of Massachusetts*, 97 U.S. 25 (); *Bowers v. City of North Little Rock*, 77 S.W.2d 797 (1935); *Vermont Electric Power Co., Inc. v. Anderson*, 147 A.2d 875 (1959). It stated that: “No governmental entity can by contract deprive itself of inherent powers necessary to the performance of its functions or of power or duty imposed upon it by prior express statutory or constitutional provision.” *Douglas v. Kentucky*, 168 U.S. 488 (1897); *Stone v. Mississippi*, 101 U.S. 814 (1880); *Batson v. Pleasant View Utility District*, 592 S.W.2d 578, 581 (Tenn. Ct. App. 1979).

Where the State does by contract delegate inherently governmental functions to a private entity, however, the Tennessee Attorney General’s Office has opined that the agency to whom the legislature originally delegated the function must maintain close oversight. For example, in the context of privatization of State prisons, the Attorney General has opined that “it may be important for the state to retain the ability to hire, fire and instruct the guards,” and that the exercise of discretion inherent in the execution of state policies by non-State personnel could involve due process considerations, making control by the State important. Tenn. Op. Atty. Gen. No. 85-286, p. 8.

Likewise, in 1998, the Attorney General, addressing the question of whether the Tennessee Regulatory Authority is permitted to delegate its authority to a private firm or another governmental entity, opined that:

As a general principle, government agencies, if authorized by statute, may contract with third parties for assistance in performing their statutory duties, so long as ultimate control and all “purely legislative” powers are retained by the agency.

Tenn. Op. Atty. Gen. No. 98-177 (attached hereto) (citing *State v. Edwards*, 572 S.W.2d 917, 919 [Tenn. 1978]; other citations omitted).

In the present context, DCS is the only governmental entity authorized by the legislature to take custody of dependent and neglected children, to investigate child abuse, and to remove children from their homes emergently in cases where there is reason to believe the child is at imminent risk of harm. Ultimate oversight and control of children placed in the State’s custody and the CPS functions are within the State’s police power and would appear to be inherently governmental functions. That DCS has authority to enter into contracts for the provision of

services related to DCS's functions does not give DCS authority to delegate its functions completely without the degree of control contemplated in Attorney General Opinions 98-177 and 85-286, discussed above.

The department does not concur with the portion of the finding that there is an ineffective relationship between the CSAs and DCS. While it is true that Child Welfare League of America did identify some areas of the state where DCS and CSA relationships are strained, there are an equal number of examples where those relationships are sound and functional, characterized by shared responsibility and shared decision-making. While we agree that some working relationships need to be improved we cannot concur with a wholesale indictment of all staff in all regions. In an effort to improve the strained relationships and to create a more functional program design for the whole state, the department is seeking to divide responsibilities along custodial and non-custodial lines, assigning responsibility for non-custodial and prevention work to the Community Services Agencies, and leaving mandated and custodial services with DCS employees.

The finding states that "the state apparently has incurred additional cost by contracting with non-state entities to operate programs." However, the auditors did not provide the department with any analysis to substantiate this claim. This finding also states that "the CSAs have received funding from each state department to defray the costs of administration." While this is true, if the department took over the duties that the CSAs now perform there would be additional cost for administration. As stated earlier, the auditors have not provided the department with any documentation to substantiate the claims that the CSAs are claiming any administrative costs that could be avoided if DCS administered all of the CSA's state contracts or took over all those duties as a direct service.

Auditor's Comment

The Attorney General has stated that CSA employees have certain benefits of state employees. However, it is clear that such benefits are limited, and CSA employees are not considered state employees. Although the legislation allows CSAs to contract with DCS to provide services, the legislation neither requires nor suggests that DCS contract with CSAs to carry out any DCS responsibilities that would necessitate on-site DCS supervision of CSA employees.

In fact, the legislation does not envision that an employer-employee relationship would exist between the CSAs and DCS as it clearly states that nothing within the act should be construed as creating an employer-employee relationship between DCS, the CSAs, or their contractors. Furthermore, management suggests that such CSA agreements are necessary for DCS to fulfill its responsibility to the state. However, such agreements are not present in all CSAs throughout the state.

Finally, if on-site supervision is necessary for case management services because these delegated functions are inherently governmental in nature, it would seem equally necessary for such on-site supervision by DCS personnel at its vendors where DCS places the children.

STUDENT AND SOCIAL SECURITY TRUST FUNDS

Our primary objectives for student trust fund accounts were to document controls and determine whether

- expenditures were properly supported and revenues were credited to the trust fund accounts;
- management had instituted formal written policies and procedures governing student trust fund accounting; and
- student trust fund transactions were properly recorded in the individual child's account.

Our primary objectives for Social Security trust fund accounts were to follow up on the prior audit findings concerning the administration of trust fund accounts and not performing monthly accountings, and to determine whether

- the department upheld its fiduciary duty to properly administer and account for trust funds held for children in state custody by ensuring expenditures were properly supported and revenues were credited to the trust fund accounts;
- management had instituted formal written policies and procedures governing trust fund accounting;
- reconciliations were performed between the total of the individual trust fund accounts and the total balance on the State of Tennessee Accounting and Reporting System (STARS);
- trust fund transactions were properly recorded in the individual child's account;
- an accounting was performed for each child on a monthly basis;
- refunds due to the Social Security Administration were returned in a timely manner; and
- the department reconciled the 1992 Department of Human Services (DHS) trust fund balance to the 1992 STARS balance.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over trust fund transactions for children in state custody to determine whether improvements had occurred during the audit period. We also reviewed supporting documentation and tested a nonstatistical sample of student trust fund transactions for propriety and compliance with departmental policies.

Based on our interviews and testwork, we determined that the department had followed its policies, in all material respects, related to student trust funds. However, with regard to Social Security trust funds, we determined that the department did not uphold its fiduciary duty to account properly for individual children's trust funds, had not instituted formal written procedures, had not prepared reconciliations between the total of the individual trust fund

accounts and the total balance on STARS, had not made refunds to the Social Security Administration in a timely manner, and had not adequately reconciled the 1992 DHS trust fund balance to the 1992 STARS balance. (See finding 6.) In addition, the department did not perform a monthly accounting for each child, as noted in finding 7.

Findings, Recommendations, and Management's Comments

6. The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits

Finding

As noted in the prior two audits, covering the period July 1, 1997, through June 30, 1999, the Department of Children's Services (DCS) did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration (SSA) for Social Security payments and Supplemental Security Income (SSI) benefits, as well as payments received from parents and from U.S. Veterans Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for current and future expenditures made by the state on behalf of the child. In addition, when a child's SSI balance exceeds \$2,000, it is the state's responsibility to return any subsequent SSI payments to the Social Security Administration.

Management concurred with the prior audit finding and stated that it was in the process of contracting with the Public Consulting Group to develop a system in cooperation with DCS's Information Resources division to bring DCS into compliance with the Michael B. consent decree and all laws and regulations. The contract has been approved and system development began in February 2000. This work was ongoing as of June 30, 2000; however, during the year ended June 30, 2000, these funds were still not being properly accounted for by the department as evidenced by the following weaknesses:

- Individual trust fund accountings for children in custody were not performed on a monthly basis. (See finding 7.)
- Management had not instituted formal written policies and procedures governing trust fund accounting. The current policies and procedures consist of informal memoranda that provide little guidance on accounting for trust funds; this has contributed to the many problems noted in the accounts.
- Management in the fiscal office did not perform reviews of trust fund accountings to ensure that they were being performed properly. This lack of adequate oversight has also contributed to the many errors noted in the accounts.
- Management did not require the use of basic accounting principles in preparation of trust fund accountings. The method used to record transactions was not always consistent. Some transactions were recorded individually and others were improperly grouped together and recorded as one transaction. For example, individual

transactions appearing in the State of Tennessee Accounting and Reporting System (STARS) may actually be the sum of several transactions that took place over a period of time, including transactions that occurred over more than one fiscal year. Grouping transactions together makes tracing a single transaction very difficult, makes misstatements more likely, and does not provide an adequate audit trail.

- Reconciliations were not performed between the total of the individual trust fund accounts and the total balance on STARS. This could not be done because monthly trust fund accountings for each child were not being performed by the department. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts keyed into the individual trust funds accounts. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts.
- When the Children's Plan was formed in 1992, the individual trust fund records were transferred from the Department of Human Services (DHS) to the Office of Children's Services Administration, then located in the Department of Finance and Administration. When DHS records were reconciled at June 30, 1992, the total of the individual trust fund accounts was approximately \$1.7 million less than the balance on STARS. For the last five years, Children's Services has been entering the old manual DHS trust fund records into the computer database. As of October 16, 1998, management believed that the department had resolved the difference between DHS records and the balance on STARS to \$1,586.86. However, no supporting documentation exists to give validity to this claim. As required by SSA regulations, the department made refunds to the SSA for benefits received on behalf of children who were no longer in state custody. However, it was noted that 75 of the refunds made by the department to the SSA, totaling \$139,345.53, were returned because the department did not furnish the appropriate information to SSA. Because of the lack of supporting documentation to substantiate the claim of the reduction, it cannot be determined whether the department has resolved the June 30, 1992, difference between DHS records and STARS.

According to management, there had been no change in the way trust funds were accounted for since fiscal year 1998. Therefore, detailed trust fund testwork was not performed as a part of the current audit. The testwork performed during the fiscal year 1998 audit on a sample of trust fund accountings noted the following weaknesses:

- Individual trust fund accountings did not reflect the return of funds to the SSA for 86.2% of the trust fund accountings tested.
- The department did not refund money due to the SSA in a timely manner when children left state custody. The department returned funds to SSA more than 60 days after the children left state custody for 58.6% of the children tested. The Michael B. court settlement, Section III, part 8(b), states in part that the Social Security Administration is "to require state defendants to provide a final accounting and return any excess benefits received on a child's behalf to SSA within 60 days of the child's release from state custody without the necessity of a prior request for such action by SSA."

- When a child's trust fund accounting is performed, an accountant begins with the ending balance of the previous accounting for that child. However, the department does not maintain a master file, either on paper or in computer form, of the individual accountings. We noted that there were paper copies and numerous computer files of individual accountings, with no procedures to indicate which is the master file. In addition, changes made to a child's previous accounting were not communicated to all people who have copies of the accounting. Sometimes the changes are made to the paper copy of the accounting and not made to the computer files. Therefore, when the next accounting is performed, an inaccurate ending balance from the previous accounting may be used as the beginning balance of the current accounting. By having numerous copies of accountings for each child, the risk of an error occurring in the accounting greatly increases, because the person doing the accounting cannot be sure the copy of the prior accounting being used is the most current.
- Entries made to trust fund accountings contained errors in 40% of the trust fund accountings tested.
- Trust fund transactions were not properly accounted for in the child's trust accounting records for 18% of the trust fund transactions tested.

Recommendation

The Commissioner should ensure that the benefits received by the state for children in state custody are handled and accounted for properly. The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should ensure that formal written procedures are developed to facilitate the proper accounting for benefits received for children and that accountings are prepared monthly for each child. Reviews of trust fund accountings should be performed to ensure the accountings are consistent, timely, and properly prepared. Individual accountings should be performed for all children as of a specific date deemed appropriate by management in order to create a subsidiary ledger of trust fund account balances. The subsidiary ledger of balances should be reconciled to the control account in STARS. Management should then ensure that all subsequent entries that affect an individual child's balance are made appropriately and in a timely manner in the accounting records. Reconciliations should be performed to balance monthly account activity to the amounts keyed into the individual trust fund accounts. In addition, a monthly reconciliation should be performed to balance the total individual trust accounts to STARS. When children leave state custody, the department should refund any benefits due to the SSA within 60 days.

Management's Comment

We concur. However, we do not agree that the department is not currently upholding its fiduciary duties. The department and our consultants, the Public Consulting Group (PCG), have developed and implemented a methodology in which to account for the trust funds in accordance with generally accepted accounting principles. However, during the audit period, this methodology had not been fully implemented.

The auditors note that despite DCS's contract with PCG, it has not corrected weaknesses in its accounting practices. While it is true that our accounting weaknesses were not corrected during the audit period, DCS submits that it has made substantial progress in resolving its accounting weaknesses. DCS further submits that it would have been imprudent for DCS to change its accounting processes significantly between PCG's initial analysis of the problems and its development of new accounting procedures designed to bring the department into compliance with the consent decree entered to resolve the Michael B. lawsuit. Such changes would have presented PCG with an impossible moving target as it attempted to correct procedures that would no longer be in place. For this reason, DCS does not address each weakness noted by the auditors.

Notwithstanding the ongoing weaknesses in DCS's accounting procedures, during the audit period, DCS laid the foundation for developing and implementing a strong accounting system, and has begun implementing corrective measures. First, on February 8, 2000, PCG began the process of correcting the problem areas in processing noted in the prior audits and to bring the department into compliance with the consent decree entered to resolve the Michael B. lawsuit. PCG began to identify all files transferred from the Department of Human Services and the status of each file. This was a monumental task involving analysis of 8,143 files, and was done concurrently with the development of accounting procedures to be used.

Second, PCG has developed procedural manuals, which DCS has distributed to each trust fund unit employee, and DCS and PCG have developed a communication plan. We anticipate that this plan will facilitate the accurate and timely communication of information concerning children's trust fund transactions among departmental staff and between departmental staff and the Social Security Administration (SSA) Nashville District Office.

Third, the Trust Fund Unit (TRU) of the Department of Children's Services applied accounting procedures developed by PCG pursuant to their contract beginning with the July 2000 accountings. The process is manual at this time but a computer system is being developed to automate the transactions. The completion of the automated system is in two phases. The first phase will be completed by June 30, 2001 and will include all accounting functions except the personal needs accounting (\$30 monthly allowance for each child). The estimated date for completion of the second phase, including the personal needs accountings, is October 2001.

Finally, DCS has communicated with SSA concerning the refunds submitted by DCS in the amount of \$139,345.53. DCS submitted these funds to the SSA Nashville Office in the past, but that office returned the funds to DCS. DCS has learned that the SSA office does not have a mechanism to accept a refund payment unless it has enough representative payee information about a child or that child's location if over 18. DCS has worked diligently with SSA to provide all the information the department could locate on these children. The only way to resolve this issue is through a continuing process in partnership with SSA. Movement is being made toward a total resolution, but the process is not complete at the time of this response.

One of the accounting problems noted in this finding is DCS's failure to account for approximately \$1.7 million less than that reflected in STARS; when individual trust fund records were transferred from DHS to the Office of Children's Services Administration, and its inability to

support the reduction in this balance on STARS to \$1,586.86. The reduction of the \$1.7 million to \$1,586.86 transferred from the Department of Human Services was a problem inherited from that previous department. The Michael B. lawsuit necessitated what has become known as the “ledger project.” This project was to determine actual balances of individual accounts from old handwritten ledgers transferred from DHS prior to 1992. There was and still is absolutely no supporting documentation other than the ledgers to verify the trust fund amounts. DCS has resolved this issue to the best of its ability, and can do nothing further for the reasons stated above.

7. The accounting for the Social Security Administration trust funds is not done monthly for each child

Finding

As noted in the prior three audits, covering the period July 1, 1996, through June 30, 1999, the accounting for the Social Security Administration (SSA) trust funds is not done monthly for each child. The Department of Children’s Services (DCS) receives the Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and can be used by the state to pay for “current and future” care of the child if the balance in the child’s account (the child’s available resources) does not exceed \$2,000. When a child’s balance exceeds \$2,000, any subsequent SSI payments are required to be returned to the SSA. The SSI payments received and the expenses paid by the state for the care of the child are not recorded in each child’s trust fund account monthly. Instead, DCS only prepares an accounting when a third party requests one, or when a child leaves state custody.

Management concurred with the three prior audit findings. In response to the 1997 finding, management stated that due to limited staff and current computer program resources, procedures would be very difficult to implement at that time, but monthly accountings should be incorporated into TN KIDS. In response to the 1998 finding, management stated that staff would be available in May of 1999 to begin an analysis of developing a funding and trust system. Management’s response to the prior audit finding stated that the department is contracting with Public Consulting Group in the development of the trust fund system and will address the problems noted in this finding. This contract has been approved, and system development began in February 2000.

An accounting shows the SSI payments received, expenses made for a child’s care, and the cumulative monthly balance. The Social Security Administration usually requests an accounting once every 12 months. Because DCS is not recording receipts and expenses monthly and is not monitoring the child’s account balance, the department does not use SSI funds to pay for expenses of the child’s care and funds are not returned to the SSA timely.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should immediately ensure that receipts, interest, and expenses are recorded in each child's trust fund account monthly. Also, each month the department should review the account of each child receiving SSI payments to ensure that the state uses available SSI funds, instead of state-funded programs, to pay for the child's care. This review could save the state from unnecessarily using state funds, and these savings could possibly pay for the additional staff necessary to perform the monthly review. The department should continue to monitor the progress of consultants working to develop a trust fund system, and clear deadlines should be established for the implementation of monthly accountings.

Management's Comment

We concur. Management feels that the work performed by Public Consulting Group concerning the development and implementation of the trust fund system will also address the problems noted in this finding. The specifics of the corrective action taken are discussed in detail in finding 6.

INFORMATION SYSTEMS

Our primary objectives in the area of information systems were to follow up on the prior audit findings concerning case management systems not ensuring data integrity and user accountability, and the department not controlling employees' access to the state's computer accounting systems, and to determine whether

- computer programming controls related to the Tennessee Kids Information Delivery System (TNKIDS) have been designed to require users to check for duplicate entries before entering a new client, allow only appropriate users to add, change, or delete clients or information on clients, identify the user who makes a specific addition, change, or deletion of a record, and require users to change their password;
- the department has developed and tested a disaster contingency plan;
- the department has canceled terminated employees' access to the state's accounting systems;
- employee levels of access to the state's accounting systems were appropriate; and
- Information Systems Security Authorization forms were maintained and were properly approved, granting access to the state's accounting systems.

We interviewed key department personnel to obtain an understanding of the controls related to the TNKIDS system and the state's accounting systems used by the department (State of Tennessee Accounting and Reporting System, Tennessee Online Purchasing System, and the

Property of the State of Tennessee System). We reviewed the department's disaster contingency plan and documentation related to the testing of the plan. We tested nonstatistical samples related to employees' levels of access to the state's accounting systems to determine whether terminated employees' access was cancelled, levels of access were appropriate, and if security authorization forms were maintained and properly approved.

Based on our interviews, review of supporting documentation, and testwork, the department had a disaster recovery plan and the plan had been tested. Furthermore, it appears that the department canceled terminated employees' access to the state's accounting systems, the levels of access to the accounting systems were appropriate, and Information Systems Security Authorization forms were maintained and were properly approved. However, as noted in finding 8, we determined that the TNKIDS computer system has not been designed to require users to check for duplicate entries before adding new clients; to allow only appropriate users to add, change, or delete clients or information on clients; or to identify the user who makes a specific addition, change, or deletion of a record.

Finding, Recommendation, and Management's Comment

8. The TNKIDS system currently in place and the CORS system it replaced do not ensure data integrity and user accountability

Finding

As noted in the five previous audits covering the period July 1, 1994, to June 30, 1999, the Client Operation and Review System (CORS), in use until November of 1999, which recorded the profiles of children in state custody and matched these with the facilities providing care, did not ensure data integrity and user accountability. The CORS system was replaced by the Tennessee Kids Information Delivery System (TNKIDS). The TNKIDS system, which is designed to serve as the automated network for recording the intake of all children in the care of the department and maintaining information about the children, their families, and the services delivered by and through the department, also lacks sufficient controls to ensure data integrity and user accountability. Management concurred with the prior audit findings.

The scheduled implementation date for TNKIDS Release 2.1 (the first phase in the development of the system) was March 1999. However, phase one of TNKIDS was not implemented until June 1999, and that was only in the Southeast Region. Subsequent to management not meeting its initial projection and due to the CORS system not being year 2000 compliant, management was forced to develop a TNKIDS Y2K Contingency Plan, which was implemented in all 12 regions by November of 1999. According to this plan, each region had a central site for TNKIDS data entry, which prevented individual case managers from updating information in the system. The site personnel entered data for each region based on information supplied by case managers. This method of data entry will be used in all regions until full hardware implementation and TNKIDS training are achieved. This implementation and training is being completed region by region with the last region expected to be completed by December 2000. At that time, all case managers will be fully trained and will enter their own information

into TNKIDS. However, during the audit period, since case managers did not enter information directly into the TNKIDS system and were unable to access and review data in the system for accuracy, there was a high risk that errors and untimely input could have occurred and not been detected.

The prior audit noted that the TNKIDS system does not track all of the changes that are made to a given record. Rather than tracking all changes to records, the system only documents the last date and user that changed a particular record. Therefore, an inappropriate entry may be made to a record, and a subsequent entry to that record would remove evidence as to who entered any previous information. This system control does not provide an adequate audit trail to trace all changes to a particular child's record in TNKIDS. Management's response to the prior audit finding stated, "The department recognizes that this tracking system is not adequate and . . . has formed a work group to develop a system log for pertinent data in TNKIDS." Based on the auditors' review, a more comprehensive audit trail was implemented in TNKIDS on June 19, 2000. This audit trail tracks all changes and deletions made to a record as well as the date and person making the change. However, for the majority of the fiscal year, these changes were not being recorded. The fact that these system controls were not incorporated in the TNKIDS system until the last month of the audit period resulted in a severe lack of accountability since any user with update access could add, change, or delete client information across the state without any record of the change.

Management's response to the prior finding also stated that this phase of TNKIDS would include a search function that would be invoked before new records are created or information is added to an established record to minimize duplication. However, our review of this phase of TNKIDS revealed that the search function is not required prior to creating a new record or adding information to an existing record. The ability to bypass the search function increases the risk of creating duplicate records and updating incorrect records in TNKIDS.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data and to reduce the risk of incorrect or invalid data. In addition, these management controls require an audit trail of changes to client information.

Recommendation

The Assistant Commissioner for Support Services, in conjunction with the Director of Information Systems, should ensure that all necessary controls are built into the TNKIDS system to prevent duplication of data and to reduce the risk of incorrect or invalid data. All case managers should enter their own information directly into the TNKIDS system and should be able to access and review data in the system for accuracy. The audit trail implemented in TNKIDS should be monitored to ensure that all changes to pertinent data in the system are logged and are accessible for management inquiry. The search function in TNKIDS should be made mandatory before a new child is entered into the system in order to minimize the risk of creating duplicate records.

Management's Comment

We concur. However, the department has since developed processes that help to ensure data integrity, which are discussed further in the response. As stated in the audit, the department had to develop a TNKIDS Y2K Contingency Plan in order to minimize Y2K concerns. As of December 11, 2000, all case managers and team leaders have had the proper TNKIDS training and access to the system.

As stated in the audit, the department has developed and implemented a more comprehensive audit trail system in TNKIDS. The audit trail was implemented on June 19, 2000. This audit trail tracks all changes and deletions made to a record as well as the date and person making the change. Internal Audit will perform a review on the audit trail system to ensure it is working appropriately. Management does not feel further corrective action is warranted at this time.

The search function is the first screen to appear on the user's screen during the client intake process. A case manager would have to deliberately cancel out of the search screen to avoid a search. All staff were trained and expected to utilize the search function prior to adding any new persons to the database except in some rare instances where adoption assistance intakes were being created to reduce the risk of error with sensitive information. The department will disable the cancel function for the search screen. This will be accomplished in the next TNKIDS build scheduled for June 2001.

The finding indicates a concern that there are duplicate records in the system due to the search function not being mandatory before an intake is performed. The department has taken proactive steps to ensure that any duplicate records are merged into one record. The "Possible Duplicate Children Report" was created as a tool to facilitate cleanup of duplicate child data in the TNKIDS database, which may have been converted from CORS, and to bring TNKIDS data to the highest integrity possible. The word "Possible" is chosen as the heading of this report because some of the entries indicated as duplicates may not be real duplicates. This is the reason why this report requires a manual review by the Field System Administrators (FSA) and case managers, in order to examine each suggested duplicate entry from the report. If the manual review finds that a child is duplicated in the system, the FSA will merge this child's information into one electronic case file. If it is not duplicated, then it will be noted that these children's case files are appropriately separate and do not need to be merged. The FSA's have had extensive training on this process to ensure that appropriately separate case files are not merged into one file.

In order to ensure that the department is in compliance with Adoption and Foster Care Analysis and Reporting System (AFCARS) requirements, the department's Data Quality Unit runs a monthly AFCARS report and sends the results to top management in the department, as well as the regional administrators. The AFCARS report tells management about the completeness of the data for the AFCARS requirements. If a data element is not in TNKIDS, it will show up as an error on the AFCARS report. This gives management an idea on where improvement is needed. In addition, the department has a data workgroup that addresses issues with the data in TNKIDS. This workgroup is comprised of individuals from different areas in the department. The goal of

this group is to identify problems with data in TNKIDS and to find solutions to correct these problems.

CASH RECEIPTS

Our primary objectives were to determine whether

- departmental controls ensured that transactions were properly supported, that receipts agreed with amounts deposited, that deposit slips were completed properly, and that funds were properly controlled and deposited intact;
- cash receipting functions were adequately segregated;
- reconciliations between the mail log, cash receipt records, and the deposit were performed; and
- the Department of Finance and Administration's (F&A) policy for timely deposit of funds had been followed.

Key department personnel were interviewed to gain an understanding of the department's procedures for and controls over cash receipts. We also reviewed supporting documentation and tested a nonstatistical sample of cash receipts for proper support and for the appropriate requirements relating to controls over receiving, receipting, controlling, safeguarding, and depositing of funds. Also, the transactions were tested for compliance with F&A's policy for timely deposit of funds.

Based on our interviews, review of supporting documentation, and testwork it appears that transactions were properly supported, receipts agreed with amounts deposited, deposit slips were completed properly, funds were deposited intact, and the department is in compliance with F&A's policy for timely deposit of funds. However, as noted in finding 9, we determined that funds were not adequately controlled throughout the cash receipting process; cash receipting functions were not adequately segregated; and that reconciliations between the mail log, cash receipt records, and the deposit were not performed.

Finding, Recommendation, and Management's Comment

9. The department should improve control procedures for the cash receipting process

Finding

The department should improve controls related to the cash receipting process. Our review indicated that the following procedures were in place during the audit period. A Clerk 2 opens the mail and prepares a mail log, using a computerized spreadsheet, of all of the funds received. The funds are then transferred to an Accountant 2, who verifies that the cash receipts actually belong to the Department of Children's Services (DCS). Any funds determined not to belong to DCS are forwarded to the appropriate state agency, and the remaining funds are

transferred to an Account Tech 1, who restrictively endorses all checks and writes cash receipts. The funds are then transferred to an Account Clerk, who prepares the deposit slip. Once the deposit slip has been prepared, the funds are given to another Account Tech 1, who deposits the funds in the bank and posts the transactions in the accounting records.

The following weaknesses were noted:

- All persons in the cash receipting process have inappropriate access to the mail log that is prepared as the mail is opened. After the mail log is prepared, it is saved to a server, where the remaining four persons who handle the cash prior to its deposit have access to alter the log in any manner. This log was designed to document what funds were received by the department and be used as a control to ensure proper accounting for all funds received. However, since the log can be altered without detection, it does not meet these objectives.
- Restrictive endorsements serve to minimize the inappropriate deposit of funds. Checks are not restrictively endorsed “for deposit only” until forwarded to the third person who handles the funds.
- A reconciliation between the mail log, cash receipt records, and the deposit is not performed. Such a reconciliation would ensure that all funds received were deposited intact. However, in order for this reconciliation to be useful, it is imperative that the mail log cannot be altered after it is initially prepared.
- Inadequate segregation of duties exists. The Account Tech 1 who posts cash receipts to the accounting records also deposits the funds at the bank. If these duties are not adequately segregated, errors or irregularities may occur and not be detected.
- Five persons handle the funds from the time the mail is opened until the deposit is made. There are no controls in place to document the amount of money that is transferred from one person to another in each process. Should errors or irregularities occur, it would be difficult to determine the person(s) responsible.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should immediately ensure that controls are strengthened relating to cash receipting procedures. Once prepared, the mail log should not be subject to alteration. Checks should be restrictively endorsed immediately after they are determined to belong to DCS. Reconciliations between the mail log, cash receipts, the deposit slip, and the accounting records should be prepared by an individual, who does not handle cash, and maintained to show that funds received were deposited intact. Accountability for the amount of funds should be established at each transfer, and the person who posts cash receipts to the accounting records should not have access to the funds.

Management's Comment

We concur. The department has implemented additional controls for the cash receipting process and has adequately segregated duties. As stated in the finding, the department did not have adequate control over the mail log. The mail log is completed in the mailroom and hard copies are forwarded to appropriate individuals. The mail log is no longer kept on a server that can be accessed by others in the cash receipting process. The finding also noted that checks are not restrictively endorsed in a timely manner "for deposit only." The checks are now endorsed "for deposit only" as soon as they are determined to belong to the department. The finding also stated that there was no reconciliation process between the mail log, cash receipts, deposit slip, and the accounting records. The department has now assigned a person to perform reconciliations between the above mentioned documentation. The department has assigned duties to individuals in such a way that ensures an adequate segregation of duties and the amount of money transferred from one person to another in each process. Management worked with the auditors while they were in the field to ensure that these controls were adequate. In addition, management requested that the department's internal audit division perform a review on the newly established cash receipting procedures. This review has been completed and the procedures appear to be working as intended.

DISBURSEMENTS

Our primary objectives were to follow up on prior audit findings concerning duplicate payments and overpayments to vendors, untimely processing of status changes for foster care children, and prompt processing of journal vouchers, and to determine whether

- the department has written procedures in place to detect, prevent, and collect duplicate payments and overpayments should they occur;
- duplicate payments and overpayments to vendors have been issued;
- medical payments were approved and funded properly;
- the process for changing the status of foster children was adequate and whether changes were made in a timely manner in order to prevent overpayments to foster and adoption assistance parents;
- payments made to foster and adoption assistance parents were reviewed and approved to determine if services were provided to children before the payments were made; and
- the Department of Finance and Administration's (F&A) policy 18, Journal Vouchers-J Type, had been followed.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over disbursements. We reviewed supporting documentation and tested nonstatistical samples to determine if medical payments were approved and funded properly. We tested a nonstatistical sample of journal vouchers for compliance with the provisions of F&A's policy 18. We reviewed controls and procedures related to status changes in the Children's Plan

Financial Information System (ChipFins) and reviewed ChipFins adjustment forms to determine if significant overpayments had been made to foster and adoption assistance parents. We also examined all warrant cancellations made by the department and all refunds made to the department in order to identify any overpayments or duplicate payments made to vendors.

Based on our interviews, reviews, and testwork, it appears that the department has procedures to detect, prevent, and collect duplicate payments and overpayments should they occur; significant duplicate payments and overpayments have not been made to vendors; and medical payments were approved and funded properly. However, we determined that status changes of foster children were not made in a timely manner in order to prevent overpayments to foster and adoption assistance parents, and payments made to foster and adoption assistance parents were not reviewed and approved to determine that services were provided to children before payments were made, as noted in finding 10. Furthermore, the Department of Finance and Administration's (F&A) policy 18, Journal Vouchers-J Type, had not been followed as noted in finding 11.

Findings, Recommendations, and Management's Comments

10. Status changes for foster children are still not processed promptly; overpayments totaling at least \$545,083 were made to foster parents

Finding

As noted in the six previous audits, which covered the period July 1, 1993, to June 30, 1999, status changes for foster children are not processed promptly. In addition, controls that related to the Children's Plan Financial Information System (ChipFins) disbursements remain weak in that the system does not require preapproval of payments. As a result, overpayments to foster care and adoption assistance parents occurred and were not detected in a timely manner.

According to management, the ChipFins database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct overpayments and underpayments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

Until the implementation of the prepayment authorization program in June of 2000, the data in ChipFins resulted in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties were required to verify that services were provided to children before these payments were made. Until case managers updated a change in the child's status, payments continued to be made to the parents. For 48 of 60 Title IV-E foster care expenditures tested (80%) and 40 of 40 Title IV-E adoption assistance expenditures tested (100%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

In an effort to reduce the amount of overpayments, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Management concurred with the prior audit finding and stated,

The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. . . . The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. . . . Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

As previously mentioned, the prepayment authorization program, which is designed to require case manager approval of ChipFins payments before they are made, was not implemented until June of 2000. The phone-in system was not implemented during the audit period. Since these systems were not operating in conjunction during the year, their effectiveness in preventing or detecting overpayments cannot be evaluated.

However, the procedures in effect during the year that consisted of preparing, distributing, and reviewing the monthly reports do not indicate that the problem was corrected. Adjustment forms for the time period July 1999 through June 2000 show that 1,525 adjustments were made, totaling \$545,083 in overpayments and \$89,458 in underpayments. Comparable amounts for the 1,036 adjustments made during the period July 1998 through June 1999 were \$422,636 and \$44,294, respectively. The department subsequently paid the foster parents who had been underpaid. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available. In response to this portion of the prior audit finding, management stated, "The department plans to address this issue in the financial phase of TNKIDS development." However, the scheduled implementation of the financial phase of TNKIDS is December of 2002.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure that case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure that placement data are being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure that they are being performed and take disciplinary action against case managers who fail to comply.

Management should monitor the results of the prepayment authorization program and the phone-in system, once implemented, to determine their effectiveness in preventing overpayments made to foster care and adoption assistance parents. Additionally, management should review case manager compliance with the prepayment authorization system to ensure that case managers are verifying that services were provided to children prior to approving payments.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur. However, significant improvement has already taken place during fiscal year 2001, and changes anticipated by July 2001 should virtually correct this finding. The department implemented the prepayment authorization system in June 2000, as noted in the finding. This has reduced the number of adjustments and the dollar amounts of total adjustments per month. A report is requested monthly that lists all children in the ChipFins system that have not had their payment confirmed during each pay period. This report is sent to field staff for research to determine the reason for the non-confirmation. During this review, field staff makes corrections to the ChipFins system. The number of non-confirmed on the report has dropped over the last several months.

The phone-in foster parent system is scheduled to be operational in the first region April 1, 2001. The department will roll out the system across the State in four phases with all regions operational in July 2001. The department has identified the business requirements for the system, and the system is currently in development. Foster parents who will be performing the testing phase of this project have been identified. Training must be provided to all foster parents prior to each phased roll out. The department has implemented the initial training development process, including preparation of training material and scheduling of this process. DCS stands by the projection that this system in conjunction with the case manager pre-authorization of payments should virtually correct the overpayment situation.

11. The department did not process journal vouchers promptly, resulting in lost interest on amounts that were billed to the federal government

Finding

As noted in the prior four audits, covering the period July 1, 1995, through June 30, 1999, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. Management concurred with the finding and stated,

The department is in the process of revising the departmental cost allocation plan to allow the billing of administrative cost to TennCare and all other federal programs based on an estimated percentage derived from historical funding data for each allotment code and cost center included in the cost allocation plan. Transactions processed through STARS each day will be charged to funding sources and drawn throughout the quarter based on these percentages. Subsequent to completion of the cost allocation process for a quarter, accounting records and federal draws will be adjusted to reflect actual charges to funding sources. The department will submit a copy of the section of the amended cost allocation plan to the Department of Finance and Administration prior to submission to the Department of Health and Human Services (DHHS) for review and comment. Subsequent to federal approval, the department will request a waiver for Policy 18 for billing of administrative cost in accordance with the cost allocation plan as approved by DHHS.

The department had not implemented the cost allocation plan as of November 28, 2000. In addition, the department had not requested a waiver for Finance and Administration Policy 18, "Journal Vouchers-J Type."

Seven of 25 (28%) revenue voucher transactions (administrative costs) were not processed promptly in accordance with Policy 18. Each was over \$2,500 and was billed quarterly instead of monthly. According to Policy 18, revenue (billing) journal vouchers totaling \$2,500.01 to \$350,000.00 should be processed at least monthly, and those over \$350,000.00, within five working days after the expense/expenditure is incurred. The revenue transactions are administrative costs the department bills to TennCare. The data used to derive administrative costs are compiled from random moment sampling on a quarterly basis; therefore, the department bills for administrative costs on a quarterly basis.

In addition, 22 of 25 (88%) expenditure voucher transactions (Children's Health Alcohol and Drug Program) were not processed in the month following the quarter end in accordance with Policy 18. Policy 18 states that the paying department that initiates the journal voucher (expenditure vouchers), regardless of the amount, shall be billed in the month following each quarter end in which the activity occurred. The department initiates the journal vouchers and submits the vouchers to the Department of Health. These expenditures were billed throughout the year by the service providers; however, the department did not bill the Department of Health until May and June 2000.

If journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Furthermore, the state is losing interest income on the use of state money used to fund federal expenditures. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

Recommendation

Since data used for determining administrative costs are only compiled quarterly, the department should consider billing monthly estimates of administrative costs. Monthly estimates should be based on the prior quarter's actual data or other data as described in management's comment to the prior audit finding, and the last payment in each quarter should be adjusted so that cumulative quarterly billings equal the quarter's data.

Regardless of the amount, the department should process all billings by the end of the month following the quarter end in which the activity occurred.

Management's Comment

The Department of Children's Services has submitted to the Department of Finance and Administration (F&A) an exception letter to Policies 18 and 20 for journal voucher and cost allocation billing. In conjunction with this, an approval for changes to the methodology for the recovery of costs through cost allocation has been submitted to TennCare and the federal government. In support for the exceptions to Policies 18 and 20 the department will draw federal funds daily based on an estimate with a settlement to actual quarterly. DCS will bill TennCare and the Department of Human Services monthly for administrative costs.

The problem with the timely submittal of expenditures for the Children's Health Alcohol and Drug program is due to the timely execution of the contract between DCS and the Department of Health (DOH). This contract was not completed until April 27, 2000. The delay was due to the negotiations of terms related to the population being served, processing protocol, a revision of the DOH match, and rate adjustments. DCS cannot bill DOH for the expenditures incurred for services until the contract is fully executed.

ACCOUNTS RECEIVABLE

Our objectives for accounts receivable were to follow up on a prior audit finding concerning a lack of formal procedures for collecting overpayments, and to

- determine whether the department continued to have significant amounts of uncollected overpayments;

- obtain an understanding of and document the procedures used to establish accounts receivable amounts throughout the fiscal year; and
- obtain an understanding of and document the procedures used to establish and record accounts receivable amounts at year-end.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over establishing accounts receivable. We also reviewed the year-end accounts receivable listing to determine the amount of uncollected overpayments made to foster care and adoption assistance parents.

Based on our interviews, procedures used to establish accounts receivable were documented and appeared to be adequate and in place. However, the department still has significant uncollected amounts of overpayments made to foster and adoption assistance parents, as noted in finding 12.

Finding, Recommendation, and Management's Comment

- 12. Since 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,255,660 are due from foster care and adoption assistance parents**

Finding

As noted in the six previous audits, from July 1, 1993, to June 30, 1999, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred with the prior audit finding and stated,

Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

However, as of June 2000, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,255,660, an increase of \$59,915 since June 1999. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster

parent or case manager of the overpayment. Once an overpayment is detected, the department adjusts subsequent requests for federal funds in order to eliminate federal participation in the amount overpaid. However, as noted in finding 10, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

Recommendation

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Program Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. It should be noted that the Department of Children's Services did not exist in 1993, but has only been in operation since July 1, 1996. Prior to July 1, 1996, all payments were done through the Children's Plan under the Department of Finance and Administration. The department promulgated policies for collection of foster care and adoption assistance overpayments on April 1, 1998. As part of the policy, once an overpayment is discovered a letter is sent to the foster care or adoption assistance parent who has been overpaid. In addition, each month a remittance advice is sent to the overpaid parent noting the balance due to the state. This remittance advice includes information about how to contact the state concerning questions or remit payment to the state. As noted in the finding, departmental policy is to withhold up to 50% of future payments for current foster care or adoption assistance parents until their overpayment is recovered. This policy has been strictly followed.

The department has collected some of the overpayments from the foster care and adoption assistance parents. In addition to the overpayments collected through the withholding of 50% of payments from current foster care and adoption assistance parents in fiscal year 2000, the department collected \$55,703.71 and \$7,686.53 from foster care and adoption assistance parents, respectively. In fiscal year 1999, the department collected \$106,713.64 and \$2,790.10 from foster care and adoption assistance parents, respectively, in addition to the overpayments collected through the withholding of 50% of payments from current foster care and adoption assistance parents.

The department has also had discussions with the Department of Finance and Administration concerning the State's ability to contract with a collection agency to address the issue of overpayments to parents that are no longer receiving any foster care or adoption assistance payments. At this time, the department believes that it will be able to contract with a collection agency through the state request for proposal policy, but is unsure at this time whether this would be cost-effective. In addition, the department is consulting with its legal division to determine whether legal action would be cost beneficial. The department's solution to future problems of this nature is to prevent (as indicated in actions described in finding 10) overpayments and be able to identify one, if it should occur, in a timely manner so recovery can be immediate.

RULES AND REGULATIONS FOR COMMUNITY SERVICES AGENCIES

Our primary objective was to determine whether the department had complied with *Tennessee Code Annotated* (TCA) as it relates to the promulgation of rules and regulations for the Community Services Agencies.

We reviewed TCA Section 37-5-307 to become familiar with the requirements of the statute. We also interviewed key personnel at the department.

Based on our reviews and interviews, we determined, as noted in finding 13, that the department was not in compliance with TCA 37-5-307, which requires that the Commissioner promulgate rules and regulations for Community Services Agencies.

Finding, Recommendation, and Management's Comment

13. The Department has not developed rules and regulations for Community Services Agencies

Finding

The department has not developed rules and regulations for community services agencies as required by *Tennessee Code Annotated* (TCA). The Community Services Agency Act of 1996 (TCA 37-5-307) states that, "The commissioner has the duty and responsibility to promulgate rules and regulations to carry out the commissioner's responsibilities. . . ." The commissioner's responsibilities under the Community Services Agency Act include, but are not limited to, reviewing and approving plans of operation, approving contracts, and appointing executive directors for each agency.

Public Acts 1989, chapter 567, known as the Community Health Agency Act of 1989 (TCA 68-2-1101), established 12 community health agencies across the state of Tennessee to provide a defined system of health services to make health care available to the indigent citizens of Tennessee. This legislation provided that the Department of Health be the supervisory agency over the community health agencies. The Department of Health established Community Health

Agency Rules and Regulations, effective April 30, 1990, to aid the community health agencies in carrying out their duties and responsibilities under the Department of Health.

Through Public Acts 1996, chapter 1079, section 149, the legislature transferred TCA 68-2-1011 to TCA 37-5-301 and created the Community Services Agency Act. This act established a system to provide services for children and other citizens using the same 12 centralized agencies, now called community services agencies, throughout the state. The Department of Children's Services was designated as the agency to oversee the community services agencies.

Because the department has not fulfilled its responsibility to develop its own rules and regulations for community services agencies, the agencies have continued to use the Department of Health's *Community Health Agencies Rules and Regulations* as guidance for

- developing and revising plans of operations;
- purchasing goods and services;
- contracting for personal, professional, and consultant services; and
- terminating contracts with service providers.

The guidance currently being used does not indicate a change in name from community health agencies to community services agencies, nor does it indicate the change in purpose of the community services agencies that was laid out in TCA 37-5-302. Should questions arise concerning the operations of the community services agencies, not having enforceable rules and regulations in place could result in policy and legal issues for both the community services agencies and the Department of Children's Services.

Recommendation

The department should develop rules and regulations that reflect the purpose of the community services agencies and address the responsibilities of the Commissioner of the Department of Children's Services.

Management's Comment

We concur. The department notes that as allowed by TCA 37-5-112, the Community Services Agencies (CSA's) have been operating under the rules promulgated for the community health agencies, which became the CSA's. The department has drafted the rules and regulations for the CSA's and submitted a Notice of Rulemaking Hearing containing these draft rules and regulations to the Office of the Secretary of State on February 15, 2001. The hearing is scheduled for May 29, 2001. The department will follow all state policies to ensure these rules are promulgated properly and as quickly as possible.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, “RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grants Module to record the receipt and expenditure of all federal funds.

Our objectives were to follow up on the prior audit finding concerning grants not being charged when initial transactions are recorded and to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department charged the federal grant at the time the initial expenditure transactions were made;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and controls concerning Policy 20 and the department’s indirect cost recovery plan. We reviewed supporting documentation and tested nonstatistical samples of grant awards, revenue and expenditure transactions, drawdowns, and reports submitted to the federal government to determine if indirect costs were included in the drawdowns and drawdowns were made timely. Grant award notification dates were reviewed and compared to the awards listed on STARS to determine if grant awards were entered timely. A nonstatistical sample of revenue and expenditure transactions was tested to determine if the transactions were coded properly. We tested a nonstatistical sample of Social Services Block Grant and Title IV-E expenditures to determine if the department charged the federal grant at the time the initial expenditure transactions were made. We also reviewed payroll cost reallocations and the Schedule of Expenditures of Federal Awards. Each grant’s total expenditure amount on the schedule was traced to STARS.

Based on our interviews, reviews, and testwork, the department had fully utilized the STARS Grants Module to record the receipt and expenditure of all federal funds, appropriate payroll costs were reallocated appropriately and timely, the department made drawdowns weekly,

and the proper indirect costs were included in the drawdowns. The department also used the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government. However, we did determine, as noted in finding 14, that the department has improperly managed state cash by not charging the federal grant at the time the initial expenditure transactions are made.

Finding, Recommendation, and Management's Comment

14. The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in five previous audits covering the period July 1, 1994, through June 30, 1999, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing the use of and interest income on state money used to fund federal expenditures. Management concurred with all previous audit findings and promised corrective actions. In response to the prior audit finding, management stated:

During the current fiscal year, DCS fiscal staff has met twice each week with Information Resources staff to develop a comprehensive funding and accounts receivable process to facilitate the proper management of state cash prior to development and implementation of the financial segment of the TNKIDS system. The complexity and magnitude of this project is difficult to convey due to the intricate funding relationships between Titles IVE (Foster Care and Adoptions), IVD (Child Support) and SSI funding sources. It should be stated, however, that this project is a long term commitment and will not be fully implemented within the next fiscal year. In order for the department to carefully consider all business requirements necessary to properly account for the multitude of programs and federal funding the department will take the time required for analysis. . . . While the work on this project is incomplete, improvements are being implemented as work progresses. Contracts for the fiscal year 2001 will have the specific federal grant award year identified at the time the contract is recorded on STARS for contracts that are funded with grants that are not child eligibility dependent. This information will be provided to the Accounts Payable staff for the cost of these contracts to be appropriately charged to the grant when the expenditure transaction is processed on STARS.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

- Title IV-E – All 60 foster care expenditures and all 40 adoption assistance expenditures tested were charged to the federal grant from 7 to 183 days (an average of 28 days) after the initial transaction was paid with state dollars.
- Social Services Block Grant (SSBG) – Fifty of 60 expenditure items tested (83%) were charged to the federal grant from 559 to 871 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn continue to cause improper management of the state's cash.

Recommendation

The Assistant Commissioner for Fiscal and Administrative Services should ensure that policies and procedures are developed and implemented to improve the department's cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded, as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented.

Management's Comment

We concur. The department's response in last year's audit report was accurate at the time. The funding project noted in that response has been consolidated with the TNKIDS Phase 2.2 development. This phase of TNKIDS system development includes the financial operations of the department. The fiscal division is currently meeting almost daily with the Department of Finance and Administration's Office of Information Resources analyst staff developing the business requirements for this system. The target date for implementation of the system is December 2002. It would be cost prohibitive and duplicative for the department to develop an interim computer system for the period until this phase of TNKIDS is operational. As an interim measure the department will be examining the possibility of modifications to allow for an estimate to be determined for the federal draw with an adjustment to actual at a later date. This will require a request to the federal Department of Health and Human Services for approval. In addition, a letter has been submitted to the Department of Finance and Administration requesting an exception to policy 20.

In addition, the finding's time frame for the SSBG adjustments is actually a reflection of the department's efforts to appropriately adjust federal reporting to maximize the State's funding and avoid a finding for not maximizing federal funds. Those adjustments are allowed by the federal SSBG grant and were used to re-examine the department's use of federal funds.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 2000, the Department of Children's Services filed its compliance report and implementation plan on June 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. For the year ending June 30, 2000, the Department of Children's Services filed its compliance report and implementation plan on June 30, 2000.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender.

A summary of the dates state agencies filed their annual Title IX compliance reports and implementation plans is presented in the special report *Submission of Title IX Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

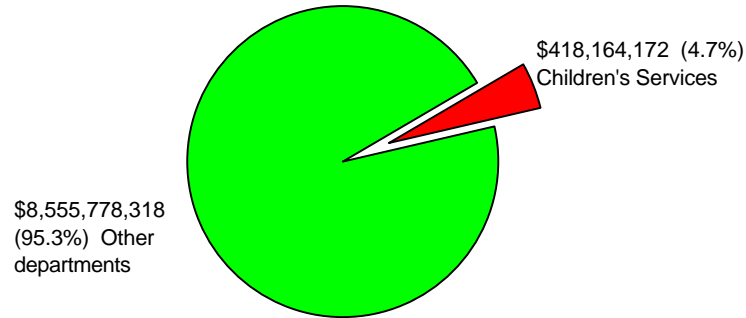
DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

- 359.10 Administration
- 359.20 Family Support Services
- 359.30 Custody Services
- 359.50 Child and Family Management
- 359.60 Wilder Youth Development Center
- 359.61 Taft Youth Development Center
- 359.62 Woodland Hills Youth Development Center
- 359.63 Mountain View Youth Development Center
- 359.65 Department of Children's Services Group Homes
- 359.70 Tennessee Preparatory School

General Fund Expenditures

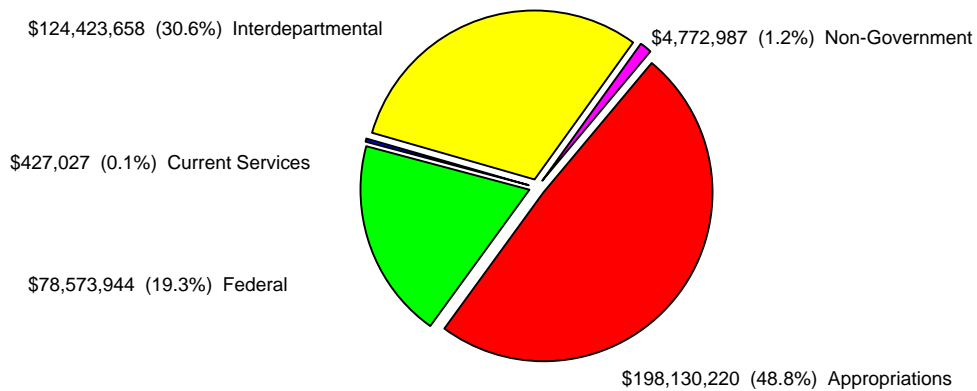
Fiscal Year Ended June 30, 2000 (Unaudited)



Source: Department of Children's Services

Funding Sources

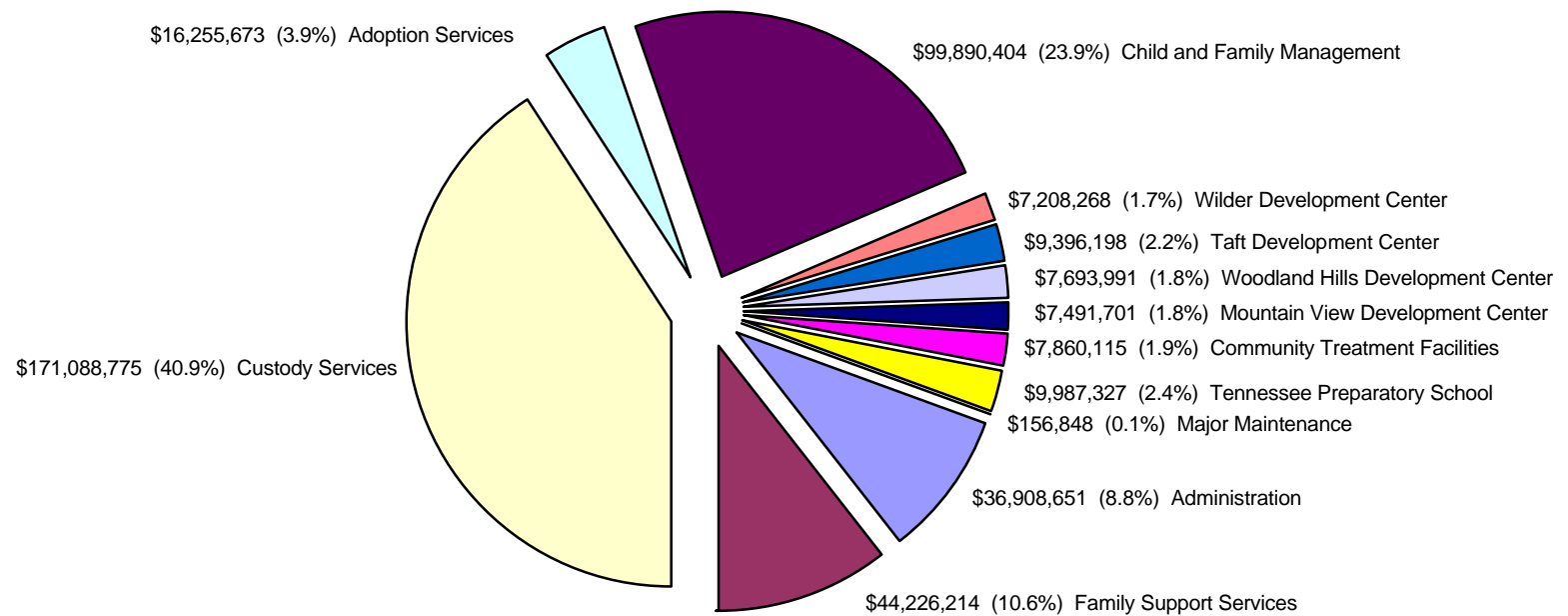
Fiscal Year Ended June 30, 2000 (Unaudited)



Source: Department of Children's Services

Expenditures by Allotment and Division

Fiscal Year Ended June 30, 2000 (Unaudited)



Source: Department of Children's Services